

# Independent Auditor's Report | Te Pūrongo a te Kaitātari Kaute Motuhake

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

## TO THE READERS OF THE UNIVERSITY OF CANTERBURY AND GROUP'S FINANCIAL STATEMENTS, STATEMENT OF SERVICE PERFORMANCE AND APPROPRIATION STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The Auditor-General is the auditor of the University of Canterbury (the University) and group. The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, statement of service performance and appropriation statement of the University and group on his behalf.

### Opinion

We have audited:

- the financial statements of the University and group on pages 42 to 77, that comprise the statement of financial position as at 31 December 2018, the statement of comprehensive revenue and expense, statement of changes in net assets / equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the statement of service performance of the University and group on pages 20 to 35; and
- the appropriation statement of the University on pages 38 to 39.

In our opinion:

- the financial statements of the University and group on pages 42 to 77:
  - present fairly, in all material respects:
    - the financial position as at 31 December 2018 ; and
    - the financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards; and
- the statement of service performance of the University and group on pages 20 to 35 presents fairly, in all material respects, the University and group's service performance achievements measured against the proposed outcomes described in the investment plan for the year ended 31 December 2018; and
- the appropriation statement of the University on pages 38 to 39 presents fairly, in all material respects, what has been achieved with the appropriation by the University.

Our audit was completed on 27 February 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Council and our responsibilities relating to the financial statements, statement of service performance and appropriation statement. We also comment on other information, and we explain our independence.

### Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those that, in our professional judgement, were of most significance in our audit of the financial statements, statement of service performance and appropriation statement for the current period.

We summarise those matters below and how we addressed them in our audit of the financial statements, statement of service performance and appropriation statement as a whole.

Any comments we make on the findings of our audit procedures should be read in that context and we do not provide a separate opinion on these matters.

**Key audit matter — Carrying value of building assets**

The University's building assets are a significant balance within the financial statements with a carrying value at 31 December 2018 of \$941.086 million (2017: \$859.293 million), as disclosed in note 8. Since the Canterbury earthquakes of 2010 and 2011, the University continues to progress its capital programme and the increase in value from the prior year reflects the completion of new buildings and remediation of earthquake damaged buildings, with \$118.255 million of capital additions recognised.

Buildings are carried in the statement of financial position at their fair value. The University's accounting policy is that buildings are revalued every three years, unless there is reason to suggest that values have changed materially in the intervening years, in which case a revaluation may be undertaken outside of the three year cycle. The most recent valuation was as at 31 December 2016 using independent registered valuers and the University has assessed that there is no evidence to suggest a material movement in the fair value of building assets since that date.

Fair value is determined as if the buildings are undamaged and then this value is reduced for impairment from earthquake damage. The extent of damage was determined using independent quantity surveyors to estimate the costs to remediate individual buildings and has been reassessed as further information on damage and remediation costs is obtained. As at 31 December 2018 the remaining impairment deduction from buildings' undamaged value is \$84 million (2017: \$113 million).

The carrying value of buildings is a key audit matter due to the large balances involved, the significant estimates and judgements in the fair value determination and the assessment of fair value movements over the past year and also the inherent uncertainties in the estimation of the remediation costs.

**How did the audit address this matter?**

We reviewed the University's evidence to support its assessment that there has been no material movement in the fair value of buildings since the last valuation as at 31 December 2016. The University's approach to its assessment included the application of relevant replacement cost indices and obtaining advice from the professional valuer who performed the most recent buildings valuation.

We confirmed that the University's approach complied with the requirements of the applicable financial reporting standard (PBE IPSAS 17).

We assessed the appropriateness of the specific price indices used by the University and checked the accuracy of the indexing calculations.

We assessed the valuer's expertise for the work and their objectivity, including reading their terms of engagement and considering the existence of other engagements or relationships with the University.

We considered the valuer's advice to the University that from their expertise and knowledge of movements in input cost indices and market information, their opinion is that there has been no material movement in value since their previous valuation.

We found that the University's assessment of the movement in value of its buildings was supportable and used an approach consistent with our expectations for a fair value movement assessment for public sector specialised buildings.

As no formal updated remediation cost estimates were provided by the independent quantity surveyors as at 31 December 2018, we considered the consistency of the impairment estimates with other internal and external information, including relevant cost indices.

We reviewed the progress of the University's building repair programme and considered the impact of the University's decisions about the future of specific buildings on the impairment estimates.

We found that the deductions from buildings' fair value for impairment were based on the best available information of damage and the likely remediation approach for the required work.

**Key audit matter — Impact of accounting standards issued and not yet effective**

The University is required to disclose information about the possible impact of the future application of new Financial Reporting Standards that have been issued but are not yet effective. PBE IPSAS 35 *Consolidated Financial Statements* will be effective for the University's financial year to 31 December 2019. The University has disclosed the estimated future impact of implementing PBE IPSAS 35 in the Statement of Accounting Policies.

In assessing the impact of PBE IPSAS 35 on the group's financial statements, the University considered its relationship with the University of Canterbury

Foundation (the Foundation) and the trusts and bequests collectively referred to as the University of Canterbury Trust Funds (the Trusts). The University concluded that, under this new Standard, the University will need to consolidate the Foundation and many of the individual trusts in the group financial statements for the year ending 31 December 2019.

This is a key audit matter because of the judgements necessary in applying the control test in PBE IPSAS 35 to trusts and because of the significant value of assets within the Foundation and the Trusts.

**How did the audit address this matter?**

We reviewed the University's assessment of how PBE IPSAS 35 applied to the University of Canterbury Foundation and the University of Canterbury Trust Funds.

We read the trust deeds or founding documents of the Foundation and the Trusts and considered information on their establishment and their relationship with the University. We consulted with specialists within Audit New Zealand with expertise in the application of PBE IPSAS 35 to trusts.

We considered how the key aspects of the accounting control test in PBE IPSAS 35 applied in the circumstances of the Foundation and the Trusts.

We found that the disclosure of the estimated impact of the new standard on the Group is based on an appropriate application of PBE IPSAS 35 and where uncertainty still exists as to the impact, this is appropriately disclosed.

**Responsibilities of the Council for the financial statements, statement of service performance and appropriation statement**

The Council is responsible on behalf of the University and group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Council is also responsible on behalf of the University and group for preparing a statement of service performance and appropriation statement that is fairly presented.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare financial statements, a statement of service performance and appropriation statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, statement of service performance and appropriation statement, the Council is responsible on behalf of the University and group for assessing the University and group's ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Council intends to liquidate the University and group or to cease operations, or has no realistic alternative but to do so.

The Council's responsibilities arise from the Crown Entities Act 2004, the Education Act 1989 and the Financial Markets Conduct Act 2013.

**Responsibilities of the auditor for the audit of the financial statements, statement of service performance and appropriation statement**

Our objectives are to obtain reasonable assurance about whether the financial statements, statement of service performance and appropriation statement, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements, statement of service performance and appropriation statement.

For the budget information reported in the financial statements, statement of service performance and appropriation statement, our procedures were limited to checking that the information agreed to:

- the University and group's Council approved budget for the financial statements;
- the investment plan for the statement of service performance; and
- the Estimates of Appropriations – Vote Tertiary Education for the appropriation statement.

We did not evaluate the security and controls over the electronic publication of the financial statements, statement of service performance and appropriation statement.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, statement of service performance and appropriation statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, statement of service performance and appropriation statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University and group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, statement of service performance and appropriation statement, including the disclosures, and whether the financial statements, statement of service performance and appropriation statement represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements, statement of service performance and appropriation statement of the entities or business activities within the group to express an opinion on the consolidated financial statements and the consolidated statement of service performance. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

**Other information**

The Council is responsible for the other information. The other information comprises the information included on pages 1 to 3, 7 to 18 and 78 to 88 but does not include the financial statements, statement of service performance and appropriation statement, and our auditor's report thereon.

Our opinion on the financial statements, statement of service performance and appropriation statement does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, statement of service performance and appropriation statement, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements, statement of service performance and appropriation statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Independence**

We are independent of the University and group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out other assurance engagements which were providing a report to the University's philanthropic bond trustees and a report on the University's Performance-Based Research Fund external research income. These engagements are compatible with those independence requirements.

Other than the audit and these engagements, we have no relationship with or interests in the University or any of its subsidiaries.



Andy Burns  
Audit New Zealand  
On behalf of the Auditor-General  
Christchurch, New Zealand